

COPY

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND)
ELECTRIC COMPANY d/b/a VECTREN ENERGY)
DELIVERY OF INDIANA, INC. ("VECTREN SOUTH -)
ELECTRIC") FOR (1) AUTHORITY TO INCREASE ITS)
RATES AND CHARGES FOR ELECTRIC UTILITY)
SERVICE; (2) APPROVAL OF NEW SCHEDULES OF)
RATES AND CHARGES APPLICABLE THERETO; (3))
INCLUSION IN ITS BASE RATES OF COSTS)
ASSOCIATED WITH CERTAIN PREVIOUSLY)
APPROVED QUALIFIED POLLUTION CONTROL)
PROPERTY PROJECTS; (4) AUTHORITY TO)
IMPLEMENT A RATE ADJUSTMENT MECHANISM TO)
TRACK INCREMENTAL CHANGES IN CERTAIN)
COSTS AND REVENUES RELATING TO ITS)
GENERATING FACILITIES; (5) AUTHORITY TO)
IMPLEMENT A RATE ADJUSTMENT MECHANISM TO)
TRACK INCREMENTAL CHANGES IN NON-FUEL)
RELATED MIDWEST INDEPENDENT TRANSMISSION)
SYSTEM OPERATOR, INC. ("MISO") CHARGES AND)
PETITIONER'S TRANSMISSION REVENUE)
REQUIREMENT; (6) APPROVAL AS AN ALTERNATIVE)
REGULATORY PLAN PURSUANT TO IND. CODE § 8-1-)
2.5-6 OF A RETURN ON EQUITY TEST TO BE USED IN)
LIEU OF THE STATUTORY NET OPERATING INCOME)
TEST IN ITS FUEL ADJUSTMENT CHARGE)
PROCEEDINGS; (7) APPROVAL OF REVISED)
DEPRECIATION ACCRUAL RATES; (8) APPROVAL OF)
THE CLASSIFICATION OF PETITIONER'S FACILITIES)
AS TRANSMISSION OR DISTRIBUTION IN)
ACCORDANCE WITH THE FEDERAL ENERGY)
REGULATORY COMMISSION'S SEVEN FACTOR)
TEST; AND (9) APPROVAL OF VARIOUS CHANGES TO)
ITS TARIFF FOR ELECTRIC SERVICE INCLUDING)
NEW INTERRUPTIBLE AND ECONOMIC)
DEVELOPMENT RIDERS.)

FILED

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INDIANA UTILITY
REGULATORY COMMISSION

43111

CAUSE NO. _____

VERIFIED PETITION AND NOTICE OF INTENT TO FILE IN
ACCORDANCE WITH MINIMUM STANDARD FILING REQUIREMENTS

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN
ENERGY DELIVERY OF INDIANA, INC. ("Petitioner" or "Vectren South-Electric")

respectfully requests authority to increase its rates and charges for electric utility service rendered by it; inclusion in its base rates of costs associated with certain previously approved Qualified Pollution Control Property projects; approval of new schedules of rates and charges applicable thereto; authority to implement a rate adjustment mechanism to track incremental changes in certain costs and revenues relating to its generating facilities; authority to implement a rate adjustment mechanism to track certain incremental changes in non-fuel related Midwest Independent Transmission System Operator, Inc. ("MISO") charges and Petitioner's transmission revenue requirement; approval of a return on equity ("ROE") test to be used in its fuel adjustment charge ("FAC") proceedings; approval of revised depreciation accrual rates applicable to its electric and common utility properties; approval of the classification of Petitioner's facilities as transmission or distribution in accordance with the Seven Factor Test of the Federal Energy Regulatory Commission ("FERC"); and approval of various changes to its tariff for electric service including but not limited to new interruptible and economic development riders. In support of this request, Petitioner respectfully shows the Commission:

1. Petitioner's Corporate and Regulated Status. Petitioner is an operating public utility, incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville, Indiana. Petitioner is subject to regulation by the Commission in the manner and to the extent provided by the laws of the State of Indiana, including Ind. Code § 8-1-2-1 *et seq.*

2. Petitioner's Operations. Petitioner provides electric utility service to approximately 140,000 customers in six (6) counties in southwestern Indiana. Petitioner renders such electric utility service by means of utility plant, property, equipment and related facilities owned, leased, operated, managed and controlled by it (collectively referred to as the "Utility

Properties”) which are used and useful for the convenience of the public in the production, treatment, transmission, distribution and sale of electricity.

3. Petitioner’s Utility Properties. As of March 31, 2006, the original cost of Petitioner’s electric utility plant in service was approximately \$1,669,362,000. After deduction of accumulated depreciation of approximately \$784,046,000, the net original cost of Petitioner’s utility plant in service was approximately \$885,316,000 at the same date. Petitioner is continuing to make additional investments that are reasonably necessary for Petitioner to properly serve the public located in its service area and to discharge its duties as a public utility. The fair value of the Utility Properties is and will continue to be substantially in excess of the original cost thereof.

4. Petitioner’s Existing Rates. Petitioner’s existing basic rates and charges for electric utility service were established pursuant to the Commission’s Order dated June 21, 1995 in Cause No. 39871.

5. Petitioner’s Operating Results Under Existing Rates. Since its rates and charges for electric utility service were last established, Petitioner has continued to make significant capital expenditures for additions, replacements and improvements to its Utility Properties. Also, the fair value of Petitioner’s Utility Properties has increased and will continue to materially increase. At the same time, expenses and other costs have increased. As a result, Petitioner’s return upon its Utility Properties is, and will continue to be, below the level required to permit Petitioner to earn a fair return upon the fair value of its Utility Properties; to provide revenues which will enable it to continue to attract capital required for additions, replacements and improvements to its Utility Properties at a reasonable cost; to maintain and support Petitioner’s

credit; to assure confidence in Petitioner's financial soundness; and to earn a return on the value of its Utility Properties equal to that available on other investments of comparable risk. As a consequence, Petitioner's existing rates and charges now are and will continue to be, insufficient to provide revenues adequate to cover its necessary and reasonable operating expenses and provide the opportunity to earn the fair return to which Petitioner is lawfully entitled. The existing rates of Petitioner, therefore, are unjust, unreasonable, insufficient and confiscatory and should be increased.

6. Petitioner's Business Risk. Since Petitioner's last electric base rate case twelve years ago, the energy industry has witnessed great change. Regional transmission organizations like MISO have been created to ensure competitive access to transmission facilities. Some large merchant generators have filed bankruptcy. Investor confidence in energy utilities and credit rating agency standards have been affected by the Enron scandal. And environmental risks have increased substantially, not only as a result of more stringent limits for the emission of pollutants but also from litigation over the interpretation of existing rules, including New Source Review enforcement actions brought by the United States Environmental Protection Agency ("USEPA"). These risks are particularly challenging for Petitioner as a relatively small Indiana-based utility relying on Indiana coal as a fuel source. Petitioner has already been required to invest large amounts to retrofit its generating units with environmental controls and these investment requirements will continue to increase in the future due to new rules affecting coal fired generating facilities and potential restrictions on carbon dioxide emissions. The implementation of MISO's energy markets and the imposition of open access requirements on Petitioner's transmission system have created new risks for Petitioner as a grid user and with respect to its ability to maintain sufficient power import capability. Petitioner also faces the need to plan for

the addition of new baseload generating capacity by 2011 which it anticipates will be a coal fired unit, with the latest clean coal technology. Faced with large investment requirements in transmission, generation and environmental assets, it is imperative that Petitioner be positioned to recover its costs, earn solid returns and provide the capital markets with confidence in its ability to support the required level of investment. Adequate rates are essential to allow Petitioner to achieve the financial results that will be necessary to attract the needed debt and equity capital on reasonable terms.

7. Petitioner's Proposed Rates and Charges and Tariff Terms. Petitioner requests that new rates and charges be authorized that will enable Petitioner to realize a proper and adequate net operating income to render safe, adequate and continuous electric utility service to the public. Petitioner proposes to cancel its existing rate schedules governing the electric utility service rendered by it and to file with the Commission in lieu thereof new schedules of rates and charges applicable thereto. The proposed rate schedules will be set forth in the exhibits that Petitioner will offer as evidence in this proceeding.

8. Qualified Pollution Control Property. On August 29, 2001 in Cause No. 41864, the Commission granted Petitioner a Certificate of Public Convenience and Necessity for a Clean Coal Technology project ("NO_x Project") required to comply with environmental rules mandating a reduction in the emission of nitrogen oxides ("NO_x") from Petitioner's generating units. Pursuant to that Order and the Commission's Order dated January 2, 2003 in Cause No. 42248, Petitioner has been recovering a return on the capital costs of the NO_x Project and the operating expenses relating to the NO_x Project through a Qualified Pollution Control Property ("QPCP") Construction Cost Rider and a QPCP Operating Expense Rider. The NO_x Project, consisting of four selective catalytic reduction systems, a fabric filter for Brown Unit 1 and

related work is now complete and in service. In this proceeding, Petitioner proposes to include the NO_x Project in Petitioner's rate base and the operating expenses relating to the NO_x Project in its revenue requirement. Upon the issuance of an Order in this proceeding reflecting such capital costs and operating expenses in the setting of Petitioner's base rates, Petitioner will discontinue the QPCP Riders mentioned above, subject to any necessary variance reconciliations.

In its Order dated February 22, 2006 in Cause No. 42861, the Commission granted Petitioner a Certificate of Public Convenience and Necessity for two CCT projects ("Phase I Projects") required to comply with new USEPA rules dealing with multipollutants and new state implementation plans to bring certain counties in Petitioner's service area into compliance the National Ambient Air Quality Standards for fine particles. The Order also approved rate adjustment mechanisms for the capital costs and operating expenses relating to the Phase I Projects. Petitioner has not yet made its first adjustment filing for the Phase I Projects. Petitioner anticipates that one of the Phase I Projects -- the fabric filter for Culley Unit 3 -- will be completed in time to be included as a post-test year major project in this proceeding. Therefore, Petitioner proposes to include the capital costs for the Cully Unit 3 fabric filter in this proceeding. To the extent the Order issued in this proceeding reflects the costs of the Culley Unit 3 fabric filter in the setting of Petitioner's base rates, Petitioner will discontinue recovery of such costs in the adjustment mechanism for the Phase I Projects, subject to any necessary variance reconciliations.

9. Generation Cost and Revenue Adjustment. Petitioner requests that the Commission authorize it to implement a Generation Cost and Revenue Adjustment ("GCRA") that would adjust Petitioner's electric rates for incremental changes from base rate levels in the following costs and revenues relating to Petitioner's generation facilities: purchased power non-

fuel costs; environmental chemical costs; direct load control credits; interruptible sales credits; 50% of wholesale power marketing margins; municipal sales margins under existing contracts or proposals; environmental emission allowance costs; a portion of emission allowance credits (consistent with the sharing percentages established in the Stipulation and Settlement Agreement approved in Cause No. 42861); and related revenue based taxes. Adjustments will be made on a quarterly basis and will include a reconciliation of over or under recoveries in past periods. Amounts included in the GCRA will be allocated to the rate schedules based on the production demand allocation percentages developed in Petitioner's cost of service study. The GCRA is a reasonable and appropriate way of reflecting these costs, credits and revenues in Petitioner's rates because they are highly variable, material and unpredictable. Accordingly, the GCRA will eliminate the excessive risk of over and under recovery and crediting for Petitioner and its customers that exists without a tracking mechanism. This risk is particularly high for Petitioner because of its relatively small size compared to other wholesale market participants, the small number and size of its generating units, the retirement of Unit 1 of the Culley Generating Station, anticipated increases in future outages due to the implementation of environmental controls, Petitioner's changed relationship with its municipal customers and Petitioner's increased need to devote its lower cost generation to serving its retail customers. The GCRA would also allow Petitioner to pursue without adverse financial consequences direct load control and interruptible demand reduction opportunities that would reduce peak period costs for the benefit of all customers.

10. MISO Cost and Revenue Adjustment. Petitioner requests that the Commission authorized it to implement a MISO Cost and Revenue Adjustment ("MCRA") that will adjust Petitioner's electric rates for incremental changes from base rate levels in (a) Petitioner's non-

FAC recovered MISO charges , (b) Petitioner's transmission revenue requirement as determined annually in Attachment O to MISO's Open Access Transmission and Energy Markets Tariff ("TEMT") approved by FERC, and (c) transmission revenues not reflected as revenue credits in Attachment O. With Commission encouragement and approval, Petitioner has transferred functional control over its transmission system to MISO. The Commission has found this transfer to be in the public interest and beneficial to Petitioner's retail customers. The MISO Charges Component of the MCRA will recover various non-FAC recovered charges assessed to Petitioner pursuant to the TEMT. These charges recover MISO's operating costs, FERC assessments and shared costs relating to the reliability, upgrading and expansion of the MISO transmission system that are allocated on a formula basis to the transmission owners including Petitioner. The MISO Transmission Component of the MCRA will adjust for incremental differences between the following revenue requirement components as determined in this proceeding and as included in future annual Attachment O calculations: (i) transmission operating expenses, including operation and maintenance expenses, taxes other than income taxes and depreciation expenses; (ii) return on transmission rate base grossed up for income taxes; and (iii) transmission-related revenue credits; and incremental differences between actual non-Attachment O transmission revenue credits and the amount of such revenue credits included in the revenue requirement in this proceeding. The Attachment O revenue requirement is applicable to all loads that sink in Petitioner's control area, including its retail load. Petitioner proposes to adjust the MCRA on a quarterly basis and allocate the MCRA amounts to the rate schedules in accordance with the transmission demand allocation percentages developed in Petitioner's cost of service study. The MCRA satisfies the criteria for a MISO tracking mechanism established by the Commission in *PSI Energy, Inc.*, Cause No. 42359, p. 120 (IURC

May 18, 2004) because the costs to be included in the MCRA are the result of FERC decisions; variable in amount from year to year; variable as to timing; substantial in individual and aggregate amounts; and outside Petitioner's control. The MCRA is further supported by the Commission's regulatory policy encouraging Indiana electric utilities to become MISO members, to invest capital in transmission system upgrades, and to pursue the goal of creating an efficient power market.

11. Return on Equity Test. Petitioner proposes that the Commission approve as an alternative regulatory plan a ROE test to be used in lieu of the statutory net operating income ("NOI") test in its FAC filings pursuant to Ind. Code § 8-1-2-42(d). The ROE test would compare Petitioner's actual ROE to the ROE authorized in this proceeding plus 125 basis points. The test would be applied in Petitioner's quarterly FAC proceedings in a manner similar to the NOI test. The ROE test will better adjust income opportunities with Petitioner's increasing investment requirements for transmission and generation facilities and environmental equipment. The ROE test also better accommodates incentive returns on transmission investment authorized by FERC; incentive returns on generation and environmental investment authorized by Indiana law; and the sharing of wholesale power marketing margins in the proposed GCRA discussed above.

12. Alternative Regulatory Plans. Petitioner requests that the ROE test be approved by the Commission as an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-6. The ROE test is in the public interest; will be beneficial to Petitioner, its customers and the state; and will promote energy efficiency. To the extent any other proposals of Petitioner would require Commission approval under Ind. Code § 8-1-2.5-6 as an alternative regulatory practice, procedure, mechanism or plan, Petitioner requests that the Commission provide any required

approval thereunder. Pursuant to Ind. Code § 8-1-2.5-4, Petitioner elects to become subject to Ind. Code § 8-1-2.5-6 for purposes of the ROE test proposal made herein and any other proposals that may require approval under that statute.

13. Depreciation Accrual Rates. Petitioner will submit a depreciation study in this proceeding. Petitioner requests that the Commission approve revisions to its depreciation accrual rates for its electric and common utility property in accordance with the results of that study.

14. FERC Seven Factor Test. The Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc. ("MISO Agreement") requires each transmission owner, including Petitioner, to file a request with the appropriate regulatory authority for classification of its facilities as transmission or distribution in accordance with the Seven Factor Test set forth in FERC Order No. 888. *Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities*, Docket No. RM95-8-000, Order No. 888, FERC Stats. & Regs., Regs. Preambles, Transfer Binder 1991-1996 ¶31,036 at 31,770 (April 24, 1996). In its case-in-chief filed herein, Petitioner will present its proposed classification. Petitioner requests that the Commission approve Petitioner's proposed classification in accordance with the FERC Seven Factor Test and the MISO Agreement.

15. Other Tariff Revisions. Petitioner will propose a number of revisions to its tariff for electric service that will be described in its case-in-chief, including but not limited to new interruptible and economic development riders, the splitting of its General Services Rate Schedule into a Small General Service Rate Schedule and Demand General Service Rate

Schedule, the addition of a Definitions Section, the elimination of Appendices and Rules that have expired, become obsolete or been superseded and the updating of its curtailment procedures.

16. Notice Of Intent To File In Accordance With Minimum Standard Filing Requirements. Petitioner hereby provides notice to the Commission of its election to proceed under the Commission's rules on Minimum Standard Filing Requirements, 170 IAC 1-5-1 et seq. ("MSFRs"). Petitioner's case-in-chief is being filed simultaneously with this petition in conformity with the MSFRs. Pursuant to 170 IAC 1-5-7 through 16, Petitioner will submit within two weeks the workpapers required by the MSFRs and direct testimony and exhibits on its proposed rate structure, its cost of service study and its proposed tariff.

17. Test Year, Rate Base and Other Procedures. Petitioner is utilizing in this proceeding a test year of the twelve (12) months ended March 31, 2006 and the procedures provided for in the Commission's Rules on MSFRs. Pursuant to 170 IAC 1-5-5(3)(B), Petitioner will include in its rate base transmission projects at an estimated cost of approximately \$16.9 million that were not in service at the end of the test year but that will be in service by the initial evidentiary hearing in this proceeding. Pursuant to 170 IAC 1-5-5(4), Petitioner will include in its rate base as a major project (as defined in 170 IAC 1-5-1(n)) the Culley Unit 3 fabric filter discussed above having an estimated cost of \$49 million that was not in service at the end of the test year but will be in service prior to the final evidentiary hearing herein. Petitioner will submit evidence as to the actual cost of the major project and its in-service date as provided in the Commission's Rules. Petitioner requests that the Commission set a procedural schedule that will allow it to issue an order on Petitioner's requested rate increase and the other proposals made

herein within ten (10) months of the filing of Petitioner's case-in-chief as provided by 170 IAC 1-5-2(c)(4).

18. Prehearing Conference and Preliminary Hearing Requested. Pursuant to 170 IAC 1-1.1-15(b) of the Commission's Rules of Practice and Procedure, Petitioner requests that a date be promptly fixed for a prehearing conference and preliminary hearing for the purpose of fixing a procedural schedule in this proceeding and considering other procedural matters.

19. Customer Notification. Petitioner will provide its customers with a notice summarizing the nature and extent of the proposed rate changes as required by the Commission's rules.

20. Applicable Statutory Provisions. Petitioner considers that the provisions of Ind. Code §§ 8-1-2-4, 6, 7, 9, 19, 20, 21, 24, 25, 38, 42, 61, 68 and 71, and Ind. Code §§ 8-1-2-2.5-6, among others, are applicable to the subject matter of this petition.

21. Attorneys for Petitioner. Robert E. Heidorn (Atty. No. 14264-49), VECTREN CORPORATION, One Vectren Square, 211 N.W. Riverside Drive, Evansville, Indiana 47708, Daniel W. McGill (Atty. No. 9489-49), BARNES & THORNBURG LLP, 11 South Meridian Street, Indianapolis, Indiana 46204, and Robert M. Glennon, 3697 North 300 East, Danville, Indiana 43122 are counsel for Petitioner and are duly authorized to accept service of papers in this Cause on Petitioner's behalf.

WHEREFORE, Petitioner respectfully prays that the Commission promptly conduct a prehearing conference and preliminary hearing and expeditiously make such investigation and

hold such hearings as are necessary or advisable in this Cause. Thereafter, Petitioner respectfully prays that the Commission issue an Order:

- (1) Finding that Petitioner's existing rates for electric utility service are unjust, unreasonable, insufficient, and confiscatory and inadequate to provide a fair return on the fair value of Petitioner's Utility Properties used and useful for the convenience of the public in rendering electric utility service;
- (2) Determining and by order fixing increased rates and charges to be imposed, observed and followed in the future by Petitioner in lieu of those so found to be unjust, unreasonable, insufficient and confiscatory;
- (3) Authorizing and approving the filing by Petitioner of new schedules of increased rates and charges applicable to its electric utility service so as to provide just, reasonable, sufficient and nonconfiscatory rates;
- (4) Including the costs associated with the Qualified Pollution Control Property projects discussed above in Petitioner's base rates;
- (5) Authorizing Petitioner to implement a Generation Cost and Revenue Adjustment as described above and in Petitioner's evidence submitted herein;
- (6) Authorizing Petitioner to implement a MISO Cost and Revenue Adjustment as described above and in Petitioner's evidence submitted herein;
- (7) Approving Petitioner's proposed Return On Equity Test as described above and in Petitioner's evidence submitted herein;

- (8) Authorizing Petitioner to revise the depreciation accrual rates applicable to its electric utility and common properties in accordance with the depreciation study submitted in Petitioner's evidence herein;
- (9) Approving Petitioner's classification of its electric facilities as transmission or distribution in accordance with FERC's Seven Factor Test and the MISO Agreement;
- (10) Approving various changes in the terms, conditions and provisions of Petitioner's tariff applicable to electric utility service as proposed in Petitioner's evidence herein; and
- (11) Granting such other and further relief as may be appropriate and proper.

SOUTHERN INDIANA GAS AND ELECTRIC
COMPANY d/b/a VECTREN ENERGY
DELIVERY OF INDIANA, INC.

By: 
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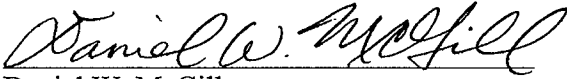
VERIFICATION

I affirm under the penalties for perjury that the statements and representations in the foregoing Petition are true to the best of my knowledge, information and belief.


William S. Doty

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Verified Petition And Notice Of Intent To File In Accordance With Minimum Standard Filing Requirements was served by delivery upon the Office of the Utility Consumer Counselor, 100 North Senate Avenue, Room N501, Indiana Government Center North, Indianapolis, Indiana 46204, this 1st day of September, 2006.


Daniel W. McGill

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